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was raised successively to 1,600 and 1,700 calories a day. In June 1948 it went up to 1,800, and the following September to 2,100. Between December 1947 and December 1948 black-market food prices fell from 64 per cent to 15 per cent of the figures for January 1946. This meant that it was at last reasonable to devote a smaller proportion of foreign aid to foodstuffs and a greater amount to economic rehabilitation. Of the £8,500,000 provided by Britain, less than £1,500,000 was spent on food, about the same amount on agriculture, £2 million on coal, and over £3 million on the most urgent industrial needs. Of the American Congress aid allocated for the first half of 1948 just under 60 per cent was devoted to food and just under 40 per cent to agriculture and coal, which was of such vital importance to industry.

The administrative responsibilities of the British and Americans in Austria made them highly sensitive to the country's needs. In spite of the obvious drawbacks of the occupation, there were certain advantages for Austria during the first precarious post-War years in the presence of the Western Allies on her territory. Without them the process of rebuilding the administration and economy after the collapse of the Nazi system would almost certainly have been accompanied by even more acute material shortages than those that were actually experienced.

Though the Austrian basic ration did not rise above 1,600 calories a day until November 1947, the minimum physiological needs of the normal consumer have been estimated at 2,160 calories. It might have been expected, therefore, that the results of so long a period of under-nourishment after the strain of the War would have been far worse than they actually were. One reason why they were not has already been mentioned: a large number of people resorted to the black market. But there were two other explanations.

During 1947 there were approximately 5 million Austrians in the rationed, as opposed to the self-supplying, category. Of these only about 2 million were normal consumers in receipt of basic rations. All the rest, either as employees, workers,

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tourist industry in Austria, though it was not until 1950 that a substantial allocation of counterpart funds was first made. Help was needed for the rebuilding and modernization of hotel accommodation, for the construction of ski-lifts and cable railways in mountain resorts, and for the establishment of publicity offices and information centres abroad. The number of tourists from East and South-east Europe had fallen off considerably, while visitors from Italy, Western Europe, and North America were increasing. This meant that post-War tourists from abroad, on the whole, expected a higher standard of comfort and amenities than had been available in the past.

From an economic standpoint no country had a greater need than Austria for the assistance made available under the European Recovery Programme. In few countries, moreover, was the establishment of a sound economy as important from a political point of view. That these two considerations were appreciated by the Economic Co-operation Administration in Washington is shown by the fact that during the first year of Marshall Aid, Austria received a higher allocation per head than any other country. In the second year its share per head was exceeded by Holland only.

The establishment of the counterpart account made it possible for Austria to embark on a much larger investment programme than had previously been possible, at a time when war damage and the legacy of incomplete heavy industrial plant made such a programme particularly desirable. In 1937 only 6 per cent of the national income had been devoted to investment, while in the ERP years the percentage varied between 17 and 21. In the allocation of funds preference was given to projects which promised to improve Austria's trade balance within a short space of time, but this main principle had to be combined with the need to round off and complete, as far as seemed expedient, the great installations that had been left unfinished at the end of the War.

Direct aid was used at first mainly to import food and the raw materials necessary to enable domestic industry to resume production. As the general situation improved, it was possible

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to increase the proportion of raw materials imported and to help production by bringing in machinery and industrial equipment.

The following figures show the total assistance given up to the end of June 1952 under the three categories and some of the main purposes [1] to which it was directed:—

	$1,000
A. Total Authorizations under Direct Aid [2]	632,401
Actual imports under Direct Aid include:—	
Food	248,579
Agriculture	64,047
Including:—	
Corn for Feeding	54,168
Fertilizers	5,642
Industry	148,083
Investments (Machinery)	50,042
Raw Materials	98,041
Including:—	
Wool	5,012
Cotton	41,161
Hides	8,707
B. Total Drawing Rights Granted under Indirect Aid	277,300

	Millions of Schillings
C. Total Releases from the ERP Counterpart Account [3]	8,036·3
Allocations include:—	
Government Investments	1,451·9
Including:—	
Federal Railways	796·4
Post and Telegraph Services	203·7
Roads and Bridges	174·4
Agriculture and Forestry	52·7
Federal Forests	32·6

[1] Only details relevant to this chapter have been chosen.

[2] Prepared by the Austrian Institute of Economic Research from statistics of the Central Bureau for ERP Affairs; 31 March 1952.

[3] Figures prepared by the Austrian Institute of Economic Research.

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	Millions of Schillings
Allocations include (*contd.*):—	
Industrial Investments	4,113·1
Electric Power	1,424·3
Coal-mining	226·0
Other Mining	25·7
Primary Iron and Steel Industry	827·7
Non-ferrous Metals Industry	126·2
Electrical Engineering	85·1
Chemical Industry	174·4
Secondary Iron and Metal Industry	215·1
Textile Industry	214·0
Woodworking Industry	121·3
Paper Industry	533·2
Leather and Leather Goods Industry	6·9
Special Recovery Programme	1,467·0
Agriculture	719·7
Forestry	156·3
Tourism	256·7

In May 1948 an ERP Central Office was set up in Vienna and made responsible to the Minister for Foreign Affairs. In December 1949 the economist, Professor Wilhelm Taucher, who had been Minister of Trade before the War, was put in charge of it, and the office then became part of the Federal Chancellery.

It became clear to all those responsible for administering Marshall Aid in Austria that the fundamental need of the Austrian economy was to improve the efficiency of production, or increase 'productivity' in the specialized sense of the term. Only in this way could Austrian goods compete successfully in world markets. It was therefore decided in April 1950 to establish an Austrian Productivity Centre with the task of doing everything possible both by study and practical measures to increase productivity in all branches of the Austrian economy. Professor Taucher became president of the Centre.

The productivity of the whole Austrian economy after the War was lamentably low. In 1947 it was estimated to be

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Austrian exports. The continuous devaluation of the schilling discouraged private saving. It also prevented stabilization of prices, because producers, who had to count on increasing costs of production, were reluctant to part with their goods. To restore faith in the schilling strong measures were required.

Private savings must be encouraged owing to the country's need of capital. The investment rate of the Marshall Aid years could certainly not be maintained, but in a highly competitive world Austria's industrial plant would have to be modernized and renewed, and hydro-electric development and the electrification of railways were vital to her future. International loans and foreign investment could be relied on to some extent, if conditions remained stable, but a high proportion of capital needs must be provided by the Austrian people themselves. In addition, the possibility of saving without loss would be an incentive to effort and increased efficiency.

Opinions differed as to the extent to which the consumer-goods industries had been neglected since the War, but there was general agreement that they deserved more attention in future. Austria's characteristic industrial asset is the quality, taste, and variety of her craftsmanship and the finished goods it produces. As the world returns to normal, the demand for these specifically Austrian products will grow and foreign countries' requirements of investment goods will be satisfied where they can be most cheaply produced.

Two further aims were subjects of considerable controversy: to economize drastically in State expenditure and to encourage competition in Austrian economic life.

On the one hand, it was maintained by the Right-Wing parties and the majority of professional economists that the budget should be rigidly examined and controlled, the whole administration overhauled, and the number of civil servants reduced. These measures, some held, should be combined with giving greater scope to the competitive elements in industry and reducing the influence of vested interests of all kinds. This last point of view was greatly stimulated by the issue in December 1951 of a Report by Mr. H. W. Johnstone

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Minister, was a financial and economic expert who believed that the budget could only be balanced satisfactorily by stringent economy in national expenditure. The new Minister of Trade, Herr Böck-Greisau, was an experienced industrialist, with a special interest in export problems, who believed in free enterprise, and shared Dr. Kamitz' view on the need for economy. Both men were convinced exponents of the new policy of self-reliance and self-help.

Before the end of 1951 the Coalition Government's efforts to establish financial stability had already met with success. To restrict credit expansion the bank-rate was raised from 3½ to 5 per cent on December the 6th, while the trade unions and the employers collaborated to keep prices down. During the first four months of 1952 savings-bank deposits rose by 538 million schillings, compared with an increase of only 77 million schillings during the whole of 1951.

One reason why the People's Party appointed the new Ministers was that it wished to strengthen its representation in the Cabinet. But it believed also that their policy was what Austria needed at the time. A natural result of its action, however, was that the policy tended to become a party issue, although it had virtually been started before the Cabinet changes took place.

The new Ministers were energetic and uncompromising in carrying out the measures in which they believed. Within a few months of his taking office Herr Böck-Greisau was with difficulty dissuaded from relinquishing his post on a question of principle. During the autumn party differences came to a head over Dr. Kamitz' proposals for an economy budget. The People's Party was mainly interested in a deflationary policy to maintain the value of the schilling. The Socialists wanted bigger expenditure on public works and new housing projects in order to keep up employment. No agreement could be reached, and so, as has been seen, the Government resigned. Pending the elections a temporary compromise budget was accepted by both sides.

Before the elections took place the new economic policy

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VIII

Currency, Prices, and Wages

FOR those with no personal experience of rapid and uncontrolled inflation the full significance of the Austrian Government's post-War measures to regulate currency and prices is not easy to appreciate. The average Austrian found them complex and even mysterious, but he had no doubt about their importance. Between 1945 and 1951 the Government passed three major laws dealing with the currency and approved five agreements regulating wages, prices, and cost of living. Apart from their financial and economic results, these measures had considerable social and political implications. In fact, their effects on political life and society are likely to be the more lasting.

Immediately after the liberation Austria was faced with two major financial problems: she had no national currency of her own and the banks were virtually empty. The need to establish an Austrian currency was urgent. The country was being flooded with German mark notes from Czechoslovakia and Hungary, where they were considered valueless, and the occupying Powers were temporarily printing their own money, which soon reached a total of about a billion schillings. Almost all the banks' cash had been removed by the Russians, and their main 'assets' were in the form of valueless German Government Bonds. It was for this reason that the Provisional Government was unable to pay any public servant more than 150 marks a month. It was only able to do as much because the Russians made available as a 'loan' 600 million marks taken very largely from the sums that they had seized.

The Government decided that it could take no steps to establish an Austrian currency until the country was united. But on the 3rd of July 1945 the so-called *Schaltergesetz*, or Counter Law, was passed, covering withdrawals from banks.

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652 454 This law amounted to a modified moratorium and was restricted to the area occupied by the Russians, in which the Provisional Government's authority was recognized. In the Western zones monetary transactions remained free.

Holdings were to be divided into two categories, funds deposited before the 5th of July being known as 'old accounts' and those deposited from the 5th of July onwards becoming the 'new accounts'. The latter were to be completely free, whereas 60 per cent of the 'old accounts' were to be blocked, the remaining 40 per cent being available under certain conditions. If the need were proved, 150 marks a month could be drawn per household as a subsistence allowance from either the blocked or the unblocked portions of the 'old accounts'. So far as the unblocked 40 per cent were concerned, transfers between banks could be made without permission, and the money could be used with a permit for a number of essential purposes, such as payment of wages, salaries, rents, insurance premiums, and maintenance during sickness. With the Finance Ministry's special approval, funds from the blocked 60 per cent could be employed for particular projects, such as economic enterprises of urgent importance to the country.

Complaints were afterwards made that during the next two years the Ministry allowed too many releases of blocked funds and that certain favoured and influential individuals were able to utilize the whole of their 'old accounts'. A number of officials were accused of partiality and corruption in consequence.

The Counter Law catered for the poor by its provision of subsistence allowances. It also laid down conditions under which the well-informed and the ingenious could employ at least a proportion of their funds for their own purposes. Those who came off worst were the thrifty, the aged, and the lonely, who were dependent on their savings, were unacquainted with the details of the law, and were not fortunate enough to have active and altruistic advisers. This weakness is no doubt characteristic of most currency legislation. It was certainly common to the three main currency laws passed in post-War Austria.

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The recognition of the Provisional Government by the Western Allies in October 1945 and the elections in November cleared the way for the re-establishment of an Austrian national currency. On the 30th of November the interim Government, without waiting for the formation of the Figl Cabinet, announced its approval of a 'Schilling Law', and one of the first acts of the new Parliament on the 21st of December was to pass this measure.

The law replaced the German mark and pfennig by the Austrian schilling and groschen at the rate of 1 for 1. All German currency except for denominations lower than ten marks was to be exchanged for the new Austrian schillings, and the same applied to the Allied Military Schillings which had been issued as a temporary currency. Everyone received 150 schillings in cash and the rest was credited to his account. Marks in lower denominations were exchanged for schillings during February and March 1946.

The second main purpose of the Schilling Law was, in general terms, to extend the provisions of the Counter Law from the area occupied by the Russians to the whole of Austria. The details were inevitably complicated owing to the different situations in each part of the country and owing to the decision to place in a separate category funds deposited between the 1st and the 22nd of December 1945. Roughly, however, the division of accounts continued into 60 per cent that was blocked and 40 per cent that was conditionally free, although minor alterations were made in the conditions under which the free funds could be used. Deposits made after the 22nd of December 1945 could be used without restriction.

Some disappointment and bitterness were felt in Russian-occupied Austria that 60 per cent of the 'new accounts' were now blocked, as the people had been given to understand that deposits made on or after the 5th of July 1945 would be freely at their disposal. On this assumption, after the Counter Law was passed, the public had confidently continued to use the banks for their savings.

Subject to Allied supervision, the Schilling Law gave back to

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Austria her financial independence. It also acted as a stimulus to trade and a check, though a purely temporary check, on inflationary tendencies. Dr. Renner has described how the legislation re-establishing the schilling lay for weeks in his drawer awaiting the re-unification of the country. So long as uncertainty regarding the currency continued, merchants preferred to hold on to their limited stocks of goods, and trade was restricted. So long as Austria continued to use German money, marks flowed across the frontier and prices were inflated. An immediate result of conversion was a substantial fall in the black-market prices of commodities and foreign currencies.

The provisions of the Counter and Schilling Laws blocking 60 per cent of the 'old' and 'new accounts' were interim, in so far as no indication was given as to the final fate of the blocked credits. This question was settled by the Currency Protection Law of the 19th of November 1947.

By the autumn of 1947 serious inflationary tendencies had begun to reveal themselves. There was a growing belief that currency reform was necessary, and rumours that it was imminent made the situation worse. Goods were hoarded, prices rose, and holders of capital showed anxiety to invest at any cost. In introducing the Currency Protection Law the Government's main purpose was to stabilize the schilling by reducing note circulation and finally liquidating the blocked accounts, from which there had been increasing demands for releases during recent months.

The law in its full details was very complex. But its main provisions were as follows. The existing currency was to be replaced. Every individual could exchange his note-holdings on the basis of three old schillings for one new, although each person was allowed 150 schillings at the rate of 1 for 1. Blocked accounts were forfeited to the State, and the unblocked portions of the 'old accounts' were converted into 2 per cent Government bonds. All free accounts, which included deposits made between the 23rd of December 1945 and November 1947, retained their full value, but, in so far as they exceeded 1,000

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schillings, half of each account was to be blocked for six months, and a quarter for a further three months.

Some attempt was made to distribute the burden in accordance with capacity to pay. Those in need were allowed to retain limited amounts from their blocked accounts up to a maximum of 3,500 schillings, and under this provision payments amounting to about 500 million schillings were in fact made in monthly instalments to 300,000 people. A capital levy was also announced, for which the necessary legislation was passed the following July. It imposed graduated taxes on capital and capital increment which were to be spread over a number of years.

The essence of successful currency legislation is that it should be introduced unexpectedly and implemented immediately, so that no one should have time to take evasive action. Such procedure was not possible in Austria in 1947 owing to the provision of the Allied Control Agreement which laid down that laws went into effect, if not vetoed, thirty-one days after they had been submitted to the Allied Council. Nevertheless, the Austrian Government might have handled the situation with greater skill. In the end, it secured Soviet approval of the Defence Protection Law at the heavy price of accepting the Russians' terms for the settlement of their 1945 'loan'. With Allied consent the law then went into effect ten days ahead of the normal time. It would have been worth paying an even heavier price to obtain Russian approval in advance, so that the three weeks' delay between the publication and execution of the law could have been avoided.

As it was, the situation during the three weeks' interval was grotesque, and the effectiveness of the law itself was seriously diminished. Evasive action was carried out on the widest scale, the most quick-witted and unscrupulous coming off best. Nobody was anxious to sell anything for money that was about to be devalued, and, in spite of Government regulations to the contrary, many shops could not be persuaded to remain open. People revealed a sudden enthusiasm for paying debts, and creditors could hardly refuse payment in a currency in

435 preventing a disastrous decline in the buying power
465 of the broad classes of the population. The unavoid-
652 able adjustment of certain distortions in prices as well as the entire stabilization of wages and prices was undertaken on the basis of the economic, budgetary and credit policy. This applied also to the coordination of prices of specified agrarian products which, in the general development, have to a large extent remained below an adequate level. These adjustments were intended chiefly to insure an utmost favorable development of savings deposits and the initiated investment program without intensifying inflation. The promotion of capital accumulation, thereby encouraging the influx of new savings capital to the banks and institutions, and the systematic consolidation of capital reserves of the insurance companies and of the social insurance institutions will, particularly in Austria, gain special importance in the coming years. As a consequence of the elimination of the counterpart funds and of the relative slow reflux of the means invested, resulting in limited possibilities of rediscount with the National Bank, the necessarily long-postponed replacement of the long-term and expensive bank credit to the capital investment market has been initiated. Expressed in other words this means that the reconstruction of the capital basis of economy, by opening the cheaper sources of financing offered by the capital market, should facilitate new short and middle-term credits and consolidate long-term credits which had previously been granted (especially investment and reconstruction credits). It should also contribute to an improved competition of Austrian products on the world markets through an adequate reduction of one of the chief factors of the basic cost price, i.e., credit procurement.

435
652 All measures of an economic-political nature which are taken, however, are not applied in a purely dogmatic way. They are effected within the ideology of the two big political parties of Austria and thus of the Federal Government which is sustained by the coalition in power. It might be explained that the economic political measures described in the following survey are approved in principle by both of the leading political parties, though it may be that they differ somewhat as to the means and methods of reaching determined aims of political economy.

185
433 The problem of increasing economic productiveness receives particular attention from the Austrian Federal Government and the Austrian Productivity Center. Labor and management are equally represented in this

In comparison to prewar times a definite lowering of individual performance efficiency had set in among the rest of the population caused by years of undernourishment and poor general physical condition aggravated by a series of psychological strains up to 1947. Another thing to be taken into account was the reorientation of the entire European economic structure in the wake of political changes, particularly the solution of certain problems of large industrial enterprises (the iron and steel industry). Last but not least were the great economic and political changes which had taken place in the areas of Austria's traditional markets, eastern and southeastern Europe. 721 [46] [433]

The destruction of capital substance weighed particularly heavy. It was obvious that the greater part of savings capital, accumulated prior to 1945, was economically no longer covered. Within the scope of a planned war economy that money had either been invested in weapons and war material which became valueless, or it was originally invested in profitable enterprises which were destroyed or diminished through the effects of the war, e.g., plants, equipment, razed woodland, etc. On the other hand, in accordance with instructions of the German finance administration, great parts of the liquid assets and reserves of banks, the premium reserves of large insurance companies, etc., had to be invested in bonds of the German Reich (especially Reichsschaftsanweisungen), whose value became as questionable as savings deposits. [454]

In view of these circumstances the Austrian federal government faced difficult problems. For the sake of simply existing it was necessary to reestablish the financial foundation, a task impossible to accomplish without a proper Austrian currency (to be newly created), without gold or foreign exchange reserves to cover this currency, without a national bank of issue, without reconstruction of a banking and credit apparatus, and particularly without first straightening out the balances essential to large banking institutions. 652

Not any less difficult to solve, in relation to the previously mentioned conditions, was the second problem: the revival of production and trade. Apart from incurred losses in plants, machinery and raw materials, the disorganization of communication and the dislocation of great parts of the population, valuable components of the production apparatus as well as other natural assets of the Austrian economy, classified as 433 [438]

block of "domestic and foreign assets" has not been designed as yet, some means to assure the functioning of the various credit institutions undoubtedly will be forthcoming.

The banking institutions, besides effecting a settlement of their balance sheets, will also be required to establish additional provisions in order to complete their economic as well as social-political tasks. In this connection the creation of a sufficient liquidity, the securing of an adequate capital structure and, last but not least, provisions for a corresponding amount of reserves to meet pension obligations towards their employees are more important. All these problems require generally and individually special solutions if the institutions are to accomplish their tasks satisfactorily within the national economy.

Thus, for example, with respect to international economic relations, the banking situation requires a settlement of balance sheets according to international procedures so that the liquidity of the banks and the coverage of accepted deposits be self-secured, inasmuch as the banks could be called upon to correct market fluctuations so as to assure continuity of work within the economic sphere. However, such a policy will only prove successful if they have disposal over sufficient means. Furthermore, with Marshall Plan assistance terminating in 1952, questions concerning capital and credit correlations will form the main aspect of European and international collaboration. Still greater tasks will develop internationally and foreign trade acceptance credits will find an ever increasing use. Such a development requires that the banks, more so than other enterprises, have available corresponding capital to serve as a basis for credit extensions. In comparison with other business enterprises, which have invested their means in commodities or other goods, the banks, as a result of war and postwar occurrences, sustained larger capital losses. Thereupon shifts occurred which created a situation in which the relationship between means and deposits were no longer in conformity to internationally set standards (generally amounting to at least 10 - 15 percent of the balance sheet total). The procurement of these necessary means will be of great importance. Since prevailing conditions in the capital market do not permit the procurement of capital in the customary manner, the capital needed will have to be accumulated out of profits of the banking institutions, provided certain tax exemption measures are enacted.

remaining government deposits of the special account (Post I). 652 457

The following periodic schedule shows the amounts released and the purpose of expenditure: 653 454

1948: Total releases amounted to 2,088 million schillings of which 396.7 million were released from ECA counterpart accounts. They were released to cover expenditures for investments of the extraordinary budget, industrial investments and housing constructions.

1949: Total releases amounted to 1,575 million schillings of which 1,425 million schillings were released from ECA counterpart accounts. They were expended to cover investments within the scope of the extraordinary budget and industrial investments.

1950: During the four quarters of 1950 releases amounted to 2,881.5 million schillings. The following amounts were released from ECA counterpart accounts:

	Million Schillings
1st Quarter 1950	none
2nd " "	951.5
3rd " "	1,230.0
4th " "	700.0
Total	2,881.5

This amount of 2,881.5 million schillings was expended as follows:

	Million Schillings
Federal investment program (extraordinary budget)	377.0
Industrial investments	1,681.0
Special reconstruction program	660.0
Others	97.5
Not yet specified	66.0
Total	2,881.5

Tabulated according to expenditures, the amounts withdrawn during 1950 from ECA counterpart accounts were expended as follows.

652
454

	Millions of Schillings	
I. Federal Investment Program (extraordinary budget)		365.
Railroads	210.	
Post	60.	
Roads and bridges	60.	
Public Buildings	17.	
Federal theaters	18.	
II. Industrial Investments		1,231.048
Hydro-electric power	443.	
Coal mines	50.	
Other mines	2.	
Iron and steel production	264.7	
Metal industry	40.	
Electrical industry	13.	
Chemical industry	50.	
Iron and metal works	65.023	
Glass industry	14.12	
Textile mills	90.2	
Woodworking industry	33.03	
Paper mills	149.99	
Foodstuff industry	.25	
Construction industry	.435	
Extractive industry	4.2	
Leather and shoe industry	4.6	
Various other industries	1.5	
Crafts	5.	
[654] **III. Special Reconstruction Program (funds)**		524.3
Agriculture	225.	
Forestry	56.	
Tourism	109.3	
Construction of workers apartments	34.	
General housing construction	100.	
IV. Others		40.75
Measures to step-up productivity	6.	
Export promotion (Chicago Fair)	1.25	
Exportfund Company	25.	
Technical Assistance	1.5	
Sawmill-school Kuchl	2.	

Of the total amount of 2,161.098 million schillings, 652 454
2,143.098 schillings were released from ECA counterpart accounts and 18 million schillings (for Federal theaters) from non-ECA accounts.

It should be explained that during the last [451]
part of 1950 a change in the accounting procedure of releases occurred. While previously the actual debit of the account immediately followed the publication of the release, this was no longer the case during the second half of 1950. The charging of the account and the payment of amounts now occurs in installments, partly for reasons of administration and partly for reasons of currency policies. Thus, for example, at the end of the first half of 1950, 100 million schillings were released for the construction of buildings. However, payments were effected only during the third (75 million schillings) and fourth (25 million schillings) quarters. Of the amount of 1.2 billion schillings released during the first few days of September 1950 only 88 million schillings had been charged at the end of the third quarter. Of the funds released in September some were not charged to the account even at the end of the year. The December release amounting to 700 million schillings (published before Christmas) was still on account at the end of 1950. Therefore the published releases are limited releases needing special "Release Letters" to receive payment.

b) Money and capital market.

The essential part which counterpart funds 454 652 [455]
(Marshall Plan aid) play in financing reconstruction and replenishment needs becomes especially obvious if the Austrian capital market conditions, which is slowly gaining momentum after capital losses sustained during the last decade, are duly taken into account. The 1950 annual report of the Vienna Stock Exchange indicates that the expectations held at the opening of the exchange in 1948 were only partly achieved at the end of 1950. The turnover in 1950 amounted only to slightly over 654.5 million schillings (at traded prices) of which 191.3 million schillings represented trading in government bonds, 282.2 million schillings in various other bond issues and not quite 179 million schillings in shares. Thus the market in stocks (the following detail reflects the necessity of interim financing of industrial monetary needs) developed a bearish trend although most of the corporations resumed dividend payments (depreciations averaging 25 per cent). Under pressure especially were the shares of "nationalized"

454 corporations reflecting open problems to be solved by the state treaty (German property, compensations, etc.). The combined index of free and nationalized enterprises bears out the development sketched above. There is a decrease from 363 in 1948 (March 1938 = 100) to 309.7 in 1949 and 244.7 in 1950, although the [434] purchasing power of money decreased from 1938 to 1950 by 5/6.

Under these circumstances it is not surprising that the stock exchange presently plays a small role in the raising of capital and the placement of new shares in the capital market. Thus, for example, during 1950 only four corporations increased their capital: The Osterreichische Brown Bovery A. G. (from 2.4 to 3 million schillings), the Brauerei Schwechat A. G. (from 20.83 to 21 million schillings), the Semperit A. G. (from 10 to 30 million schillings) and the Wagner Biro Maschinenfabriken A. G. (from 5 to 10 million schillings).

[455] A similar situation prevailed in the bond market. The report of the Vienna Stock Exchange states: "In April 1950, when the 5 per cent Reconstruction Loan of 1949 was listed on the exchange at 85 (subscribed up to 324.6 million schillings), the investment market had partially adjusted itself to the prevailing new interest rates. Issues of the provinces and municipalities, generally bearing interest at a rate of 4 per cent, decreased in value from 100 per cent to 92 per cent. The market in debentures (up to the end of 1950 debentures and municipal bonds amounting to 596.4 million schillings at par were circulating) had to overcome certain difficulties, since it is based on a 4 per cent interest rate and the change of quotations in connection with the credit extension to debtors represents a difficult problem...." During the summer months of 1950 a new type of debentures appeared. They matured after 6 years (previously they had been 40-50 years) with which, naturally, only credits extending for an approximately similar period of time could be financed. The amounts derived from such issues were primarily used for public investments.

It is a fact that presently bonds are quoted below par value since, besides the above-mentioned reasons, the scope of buyers is a rather limited one. From September 30, 1948 (the first time after the currency reform that particulars about the circulation of debentures and municipal bonds were published) to the end of 1950 only 95 million schillings in debenture bonds and

78.5 million schillings in municipal bonds could be sold. Buyers of debenture bonds were mainly insurance companies. 454

The raising of capital, instead of being accomplished through the customary way of issuing new shares or bonds, had to be effected by the extension of credit lines which, especially after the inception of Marshall Plan facilities, the banks extended on the strength of their liquidity reserves or by means of refinance possibilities created with ERP counterpart funds. 453

The total amount of credit outstanding with Austrian credit institutions at the close of 1950 amounted to 10,699.1 million schillings, including 1,012 million schillings extended during the last quarter of 1950. Components of the amount were for the following purposes:

	Million Schillings
Reconstruction (investment credits)	2,267.6
Commodity credits	702.0
Commercial credits	7,729.5
	10,699.1

Of this banks and bankers extended 7,703.3 million schillings through refinancing possibilities of the Austrian National Bank.

	Million Schillings
Reconstruction credits	2,267.6
Commodity credits	700.7
Commercial credits	4,735.0
	7,703.3

Considering that the amount of reconstruction credits (approximately 2.3 billion schillings) represents a transit item for the banks (the notes shall be converted into a bond issue at a later, appropriate opportunity), there remains the fact that, due to the slowly progressing creation of genuine (savings) capital, a certain discrepancy between the creation of new capital and capital need exists. This led to the adoption of credit policy measures during the first quarter of 1951. Up to the end of December 1950 total deposits with banks amounted to 9,469 million schillings of which 2,198 million schillings represented deposits in savings accounts and 7,271 million schillings deposits in checking accounts. Therefore, counterpart funds and self-financings are presently the main factors in industrial investments. 454 453

454 With the gradual diminution of the ERP aid,
434 the raising of new capital gains significance. It is a question made particularly difficult inasmuch as prices rose on the world markets during the last half year and the decline in the purchasing power of the schilling caused by the lag in wages. (Running parallel is the sharp decline of the value of savings deposits.) A number of other factors retard the creation of savings capital: the lowered real wages, the long pent-up consumer demand of the broad masses, the lack of investment-seeking capital from insurance institutions which, as holders of collective saving, normally placed substantial amounts at the disposal of the capital market, the use of retained profits for self-financing of investments and, last but not least, the stress of fiscal necessities.

Naturally, Austria shares these developments with other European nations. Even France, the country of savers, according to latest reports has experienced a decline in savings to 4.3 per cent of the national income.

458 Despite progressive credit extension (which
[652] is, qualitatively as well as quantitatively, being held under control by measures adopted during the first quarter of 1951), in contrast to other economically stronger nations, there seems to be no dangerous monetary development even though the political situation in the world in the fall of 1950 caused an increase in the volume of money and payments.

457 [511] 433 There is no doubt, however, that the desired higher standard of living requires greater accomplishments from the economy if, as is the case today not only in Austria but also in other ERP member countries, edible foodstuffs, raw materials and machinery are not to be continuously supplied by foreign aid. In this connection it is useful to recapitulate the value of such aid. Thus the total value of direct and indirect aid, congressional aid, interim aid, surplus goods, gifts, etc., amounted in 1948 and 1949 to approximately 300 million dollars yearly, an amount sufficient to cover the deficit of the payments balance up to now. In other words, the Austrian economy received more than 6 billion schillings which increased the gross national product available for consumption and industrial investments by 20 per cent. Foreign aid in 1950 amounted to 200 million dollars or 4 billion schillings and in 1951 to 100 million dollars.

433 As a matter of fact, production and productivity increased rapidly during the last years. However, this rapid increase was due to the extraordinarily low starting point. It is true that present industrial production exceeds the prewar level by 40 per cent, but it is a result of using about 50 per cent more than in 1937. At the end of 1950 the individual output index of both industrial as well as agricultural labor amounted to 90. Today, the task of increasing productivity rapidly is far more difficult since, in addition to diminishing foreign assistance, any reopening of idle capacities and procurement of additional raw materials and coal is almost impossible. It follows that every percentage of productivity to be gained requires greater efforts than before.

433 439 454 In connection with the above, there arises in Austria a specific coordination problem with regard to output gains already achieved in other nations, the question of cost computation. (Compared with Austria's present production ability the American, Swiss, Swedish, and English national economies, during 1949, furnished respectively 7, 4, 3 1/2, and 2 1/2 times as much goods and services per capita. This fact is intensified by the progressive industrialization of the previously agricultural countries of southeastern Europe.) If Austrian manufactured goods (as producers of foreign exchange, and therewith as guarantors of sufficient raw materials, employment and living standard) are to be competitive on international markets, the question of decreasing production costs per unit becomes imperative. Such a decrease, excluding developments beyond the control of

plant managements, can be achieved only through accumulation of an adequate yearly (savings) investment percentage (during 1950 investments in plants, structures, rolling-stock, equipment, etc., amounted to 20 per cent of Austria's national income, against 6 per cent in 1937; the 1950 investments were to a large extent the result of foreign assistance), as well as technical progress, rationalization of plant operations and adoption of modern psychological working principles. 433 439 454

Only such a procedure assures a genuine increase of the real income. However, whether an increased production output is followed by a decrease of prices or by an increase of wages (raising the living standard) or whether necessity demands a combination of both is problematical. [434]

On the basis of a favorable world-wide political scene it is hoped that Austria will realize her economic program as worked out with the help of international experts. Better technical equipment will lower the individual wage quota, thereby establishing a more favorable competitive basis. Thus, together with a transfer of skilled labor to production of export goods, the desired adjustment in the balance of payments will be achieved. In this connection the resettlement drive, initiated by the ERP, furnished a possibility to shift needed manpower to plants short of help. The higher real wages, resulting from an increased productivity, will then provide a basis for the accumulation of savings capital needed for additional investments. However, considering the special position Austria occupies, it will be necessary to grant her a breathing spell for achieving her economic aims. 433

d) Budgetary developments.

Within the scope of combined reorganization procedures, special attention is directed towards the balancing of the budget. Due to the large expenditures covering the reconstruction of public enterprises and administrative organizations damaged by the war and the increase in economic tasks of the government, e.g., occupation costs and the expenditures in connection with "Auslandsfürsorge" (welfare of the DP's, expellees, refugees), the consolidation of the budget (in spite of a rising national income) was only partly possible in 1949 and 1950 inasmuch as fluctuating demands exceeded narrow tax receipts. 652 727

The stagnation of the capital market, which makes the financing of comprehensive investments on the open market difficult now, made special forms of interim-financing necessary for Marshall Plan deliveries. This task the banks and the Nationalbank undertook through their financing techniques. 652 454

Agreement has been reached by the former Ministry of Properties and Economic Planning, the Ministry of Finance, the Nationalbank and credit institutions for the financing in schillings of Marshall Plan deliveries. Inasmuch as outside means (credit) were required, the following categories of credit have been set up with regard to the different currency policies: 652 457 439 452 453

1) Credits for the import of raw materials (wool, cotton, hides, leather, metal, chemicals, etc.);
2) Credits for financing the cost of manufacturing (Umwandlungs kredite);
3) Credits to cover investment needs (Aufbaukredite).

For the first two categories the applicant for credit has to prove that all deliveries will take place within the scope of the Marshall Plan. To cover credits for raw materials provision is made for payments in goods with terms of three months, which may be extended three times to a maximum twelve months. (A special priority was provided originally for the delivery of textile raw materials of any kind and, furthermore, for hides, leather, furs and tannic acid, as long as the accounts were settled prior to June 30, 1949. This measure aimed to spare the buyers of goods losses in interest caused by delays in carrying out the Marshall Plan. As a concession a 60-day delay in payment of the amount in schillings was fixed so that in these special cases the validity of the credits was prolonged up to a maximum of 14 months.) The rate of interest for raw material credits has been fixed at 5 per cent net. The deliveries of semi-manufactures are treated in the same way if they are further processed by Austrian industrial plants. These letters of credit may be refinanced by the Nationalbank.

The covering of manufacturing costs (Warenumarbeitungs- und Umwandlungskredite) is provided for by ninety day drafts which may be extended twice, i.e., a maximum of nine months, if the buyer of goods can prove that those larger deliveries of Marshall Plan goods to be manufactured by him cause a sharp increase in the production so that additional means of production are necessary. The rate of interest is 6.5 per cent net. These drafts may also be refinanced at the Nationalbank.

452 The financing of credits for investments
652 (Aufbaukredite) is likewise provided by different
453 types of drafts (three-months validity) until such
[454] time as definite solutions (consolidation) will be possible in the form of obligations on the money market. The rate of interest is 4.5 per cent net. The examination of such credit applications lies with a commission consisting of representatives of the Federal Chancellory-ERP-Central Bureau, the Austrian Nationalbank, and representatives of those banks which grant the credits. Final approval rests with the "Kreditlenkungskommission," an advisory committee of the Federal Government and created by the federal law of July 3, 1945, to direct public and private credits. Members are nominated by the Federal Government.

453 The following banks are presently handling reconstruction credits: Creditanstalt-Bankverein, Vienna, Innsbruck; the Bank for Carinthia, Klagenfurt; the Bank for Upper Austria and Salzburg, Linz; the Oesterreichische Länderbank AG, the Hypotheken- und Creditinstitut, Vienna; the Bankhaus Schoeller and Co., Vienna; the Arbeiterbank AG, Vienna; the Genossenschaft-Zentralbank AG, Vienna; the Girozentrale der österreichischen Sparkassen, Vienna; the Gewerbe- und Handelsbank AG, Vienna.

439 With the activation of the multilateral
457 balance within the framework of the European Payments
652 Union after October 1, 1950, some changes took place in the financing of Marshall Plan imports. They, however, refer to the mobilization of the so-called "Initial Credit Position" which serve to cover the total deficit against all ERP countries. The carrying out of goods exchange on the basis of direct aid was not influenced by these changes.

To avoid difficulties in financing raw material imports from Marshall Plan countries, and in order not to restrict the potentialities of financing which the importers had been allowed up to this date, the Austrian Nationalbank decided, instead of refinancing goods imported out of the indirect aid (Drawing Rights), to discount ninety-day drafts of the banks. This forms the foundation of the means for financing goods imported from ERP countries. These drafts are issued by credit institutions and are drawn against the importer. The refinancing of these drafts takes place if the payee, in the opinion of the Austrian Nationalbank, possesses sufficient credit standing, and if the imports, as alread

explained, come from ERP countries and comprise such goods as were, up to this date, to a considerable extent under indirect aid and were refinanced previously by the Nationalbank. There were special lists for all goods in question. 439 652 457

The cashing of these drafts takes place under the same conditions which apply to imports of semi-manufactures out of ERP funds; the Nationalbank discounts the incoming drafts at the prevailing bank-rate (now 3 1/2 per cent); other banks have a rate 1 1/2 per cent higher.

The total amount which all credit institutions can present in such drafts does not exceed the amount of the refinancing granted for financing imports out of indirect funds.

3. The Structure of Production.

a) Principles of industrial investment.

In accordance with the principles of ECA, ERP funds are used only to finance investments which serve to balance payments in the shortest possible time, that is, investments which: 1) bring in foreign currencies (by starting new or extending existing production of export goods); 2) save foreign currencies (production of goods important to internal supply, which previously had to be imported from foreign countries, or by improving their competitive position); 3) cause an essential increase in the total economic productivity, i.e., a reduction of production costs and increasing the ability of the Austrian economy to compete with foreign countries. 652 454 457

When hostilities ceased in 1945, most of the industrial enterprises showed great impairment. This was due to: 1) extensive destruction during the actual fighting; 2) confiscation through which valuable equipment for production was removed after the end of the fighting, whereby functional coherence of production was disrupted; 3) changes in economic aims. Before 1945 (not considering the aims of wartime economy) a large number of enterprises were structurally organized on a broader economic territory; after the war, therefore, the industry of Austria had to return to the more specialized industrial capacities of the pre-1938 period; 4) an acute shortage of capital caused by amounts necessarily written off as war losses, funds lost as outstanding claims, etc. 433 727

727 In other fields too there were noticeable
311 losses and a decline in real capital. One might observe in agriculture, for example, a deterioration of soil owing to the shortage of fertilizers and cultivation during the war years, a lack of seeds, fodder and agricultural machinery as well as declining yields in forestry due to overcutting of trees, obsolescence and lack of means of transportation from the forests to the mills. The robbing of coal mines, failure to introduce rationalization and the forcing of unrealistic work in other mines (metals) give us a full picture of a declining economy.

652 Reconstruction of a productive national eco-
433 nomy could be successful only if the economic forces
185 specifically characteristic of the country were acti-
454 vated and coordinated to secure an optimum of the whole economic productivity. This presupposes a knowledge of possibilities based on an inventory of the internal economy and lining up problems according to their importance (to avoid mistakes in investments or overextension). It also presupposes establishing a time schedule for the financial fulfillment of individual projects with a view to the existing shortage in capital. The reconstruction of primary production, as well as the most important industries, have been carried out according to special plans which were worked out by government authorities in cooperation with interested industrial circles. Planning covered, in particular, production of energy, coal mining, the iron and steel industry, and ore mining and the metal industry.

These plans are not limiting as to quantity or time but are a type of structural plans without time limitations, the realization of which is bound to certain financial or material possibilities. With the maximum supplying of internal requirements of energy, coal, iron, metals, etc., they intended to assure lower prices in the finishing industries. In this way a sufficiently high quota of exports should be obtained for a balance of payments. These plans form the theoretical basis for those investment programs which the Austrian government presents to the ECA in Washington and which are realized step by step with the help of the ERP funds.

Just as with other ERP participants it is Austria's primary aim in its investment policy to make the utmost use of all possibilities offered by the Marshall Plan up to 1952. In addition to the development of primary industry, the greatest effort is being made

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to bring the capital goods industry to the highest technical level. The direction of this policy is determined not only by the high demands for reconstruction within the country itself, but also by the rapid tempo of industrialization of European and non-European regions. If Austria is to be able to compete on the world market after the end of the ERP, it must not only close the gaps in its production but also provide for further undisrupted technical developments. It is clear that Austria has to divert annually from its national income a sufficiently high quota for investment (now about 21 per cent with the help of the ERP) in order to keep pace with other developments.

In view of the time limitations and the gradual reduction of Marshall Plan aid, it will be the principle of the investment policy from 1949-50 on to give primary consideration to those big investments (for example, in energy and iron-ore industries) whose development was pushed by high capital expenditures and to have them achieve an economically and technically sound condition, if possible, within the period of the duration of the ERP. Basically, the counterpart funds are used for those investments from which payments are expected on the shortest terms so that, along with big projects, numerous smaller and medium sized projects which increase exports get under way. In disposing of counterpart funds, however, those enterprises which demand ERP-financing are forced to cover part of their planned investment out of their own funds (profits, private credits and various deductions).

The main items of the investment policy for future years, excluding the arrangements of the so-called "Long-term Program," have been fixed by the Reconstruction Program 1950-52, which was presented to ECA in the summer of 1950 and amended in the late fall of 1950, owing to price alterations. Based on the 1949 price level, the investments for the three year program had been set originally at 24 billion schillings. This figure was revised to 27 billion schillings in accordance with the change in prices and wages which occurred in October 1950. It was the aim of the partly transferred investments to create such conditions as to obtain an increase of production of domestic raw materials, to save foreign currency and to set at the disposal of the domestic economy those raw materials which can be found to a suitable extent in the country itself. As part of this plan, for example, the construction of four more power plants will be started, the output of coal shall be increased to 6 million tons from the present 4 million

652 tons, the production of iron and steel to 1 million
195 tons annually, the output of rolling mills to ap-
433 proximately 750,000 tons. Further increases in pro-
454 duction will be provided in: bauxite mining, aluminum production, production of cellulose, paper and pulp. In the same manner the export capacity of nitrogen plants (Stickssstoffwerke in Linz), one of the most important producers of foreign currencies in the Austrian economy, will be increased by 50 per cent. In the chemical industry additional investments will make it possible to start production of sulfuric acid and phosphate fertilizer. The single projects will be discussed in detail in another connection.

b) The renovation and rationalization of the primary industries.

The Austrian government holds to the principle (insofar as none of the theoretical considerations in the preceding chapter interferes) that in building up its program of investments cheap primary products lower the production costs in the finishing industries and this allows them to compete in the sharp competitive battle with other highly industrialized
685 European countries. Certain focal points of investments have been formed, encompassing especially coal, iron and steel, ore mining, and the smelting industry as well as electrical power. These are mainly nationalized enterprises. For investment purposes in the years 1948 and 1949 they received a total sum of 1,627.4 million schillings out of public funds. Of this amount, 958.5 million schillings were reconstruction credits, 481.6 million schillings were capital payments of the Federal government, 31.2 million schillings were federal loans and 156.1 million schillings were credits guaranteed by the state. In 1950 a sum of 30 million schillings was provided in state capital contributions; in the same year (fall of 1950) the funds released from the ERP for the above-mentioned branches of industry totaled 133 million, 283 million and 418.5 million schillings used essentially as follows.

316 (1) Investments in coal-mining.
154 During the war the coal mines (predominantly brown coal in Austria) suffered greatly in their development because of overproduction and neglect of needed renovation as well as delay in planned expansion. Within the scope of the Marshall Plan the necessary renovation and rationalization of operation, mining improvements, shaping of daily operations, deep mining,

mechanization and electrification are being carried out. A number of new shafts and research and boring operations are also being pushed. In 1950, 75 million schillings from ERP funds was allotted to mining. The total output of Austrian coal mines, about 92.7 per cent nationalized, was approximately 4 million tons in 1950. The output will be increased to 6 million tons annually according to the reconstruction program for 1950-52. 316 454

(2) Iron and steel production.

The structure of the iron and steel industry after the war was essentially different from that of 1938. While the capacity of blast furnaces and steel plants (and to a degree also of steel foundries, forges, gross rolling works, coke ovens and finished steel operations) has increased, ingot operations and medium and fine quality plates (especially rolled metals) have suffered in their capacity and in their functional coherence by removal of equipment (Demontage). In addition to this a large part of the means of extraction and transportation at the Erzberg in Styria, the modern electric gross rolling works at Donawitz, as well as various items of equipment in the iron and steel works (particularly that for the production of rolled metals) has been lost. On the other hand, plants which were only half completed and too big for Austrian industry (such as the six blast furnaces at Linz) had to be taken over so that there was an over capacity of raw iron, steel castings and forging items. The planning for the iron and steel production was worked out by the federal ministries in collaboration with experts of the steel industry after extensive and careful exploratory surveys. They aimed to carry out modernization and completion of the steel works so as to balance future production with the expected sales; utilize the existing works to the highest extent possible and moving of workers from one place to another would be avoided; accomplish the necessary completion of plants for overall production and the closing of production gaps; modernize obsolete plants in order to get more and better economic production. The following considerations were taken into account: solution of the problem of the distribution of production of commercial steel and gross-rolled steel in the two largest Austrian plants (the Oesterreichische Alpine Montan-Gesellschaft in Donawitz and the Vereinigte österreichische Eisen- und Stahlwerke AG in Linz); balancing of production programs of the four large Austrian steel plants (Gebrüder Böhler und Co. A.G., Schoeller-Bleckmann of the Alpine Konzern in Donawitz and in 327

IV. AUSTRIA'S ECONOMIC POSITION IN 1951

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The following points are characteristic of the economic trends in 1951.

1. In the monetary field: the tendency in the world economy toward forcing reductions in the credit policy; the figures will be rounded-up by an increase of the bank rates toward the end of the year;

652 435 2. In the budgetary field: the approaching end of ERP aid makes it necessary to reduce the price supports still existing;

454 3. In the field of investment policy: a reasonable balance between the investments of the production goods sector and the consumer goods sector is to be prepared; by increasing the offer of goods ready for consumption and export the imbalance in the balance of payments will be overcome as rapidly as possible;

439 4. In the field of foreign trade: the shortage of raw materials and the existing discrepancy between the trade and foreign currency balance (deterioration of the exchange rates) make special laws and measures necessary to promote exports;

435 465 5. In the field of prices and wages policy: certain discrepancies in prices, especially in the agricultural sector, make necessary adequate adjustments as well as improvements of real income of wage earners to the level of higher prices;

6. In the field of production and productivity: a general increase of the capacities and the extent of capacities, is necessary between the social partners and the abolition of burdens which prevent an increase in production. Adequate relations should be created.

A. International Economics and Austria's Reaction

000 A glance at the representative statistics prove that international development proceeded along quite different lines in 1951 than was expected at the beginning of the year. The steep rise of prices for raw materials, especially those of wool, tin, rubber, which started from the beginning of the Korean crisis have created an ever-increasing inflationary tendency.

bringing new problems of adjustment. These were solved by a new general agreement of the Chambers of Economy (in July 1951), in which the main considerations were: the out-of-line prices in agriculture, the necessity of decreasing the subsidies for imports still existing, and the boosting of tariffs. Special aims of the economic policy were: 652 [435]

1. To restrict the utilization of foreign aid for consumption goods in order to afford a bigger part of the total volume of goods and services for investment activities or, at least, a non-fluctuating part in the case of a decrease in foreign aid. The top aim was a change in the utilization of the gross national product. [434]

2. To balance the agricultural prices which were out of line. In this way, conditions were to be created for an optimal distribution of the available aids through the price mechanism (changes in the constitution of the gross national product). [435]

3. To effect conditions for a new distribution of income; this referred, in the first place, to agriculture and employment in public services, to persons living on state relief and pensionists (for these last two groups an adjustment of the real income was secured by the so-called "Nachziehverfahren"); the real wages of the other wage earners should be kept on the existing level (changes in the personal distribution of the gross national product). [454]

It was not easy to encompass these aims within the concept of economic policy, since automatically secondary and tertiary reactions to these changes were to be expected upon the total price structure. Be that as it may, the immediate results of this agreement were the following regulations:

1. Agriculture received higher production prices for wheat, rye and milk, by which a better market capacity might be obtained (stimulation of the production). [435]

2. The subsidies for the import of bread grains, fodder grains, and raw materials for fats were diminished. Consumer prices corresponded generally to the average (newly calculated) prices of the producer (unless fixed by special regulations). As far as import subsidies continued, they became part of the budget while the incomes from sales were kept on the same level of value as those from the ECA counterpart accounts. [654] [439]

C. Developments in Credit Volume.

The features which influence the volume of payments and credits in an economy come partly from without and partly from within. The impulses, as is clearly seen in 1951, came from the flow of a world-wide inflationary price (wages) development; on the other hand, they were reflected in the necessities of the domestic economy which were expressed by the lines of the investment policy. Every investment ties up the invested capital (credit) until such time as the investment becomes productive. 000

If one wishes to avoid the danger of stopping investments before they reach the stage at which they are productive (i.e., to leave them unfinished and lose them within the scope of the total economy) then it is necessary to provide the proper means for completing investment projects, even if one could prove that a deceleration of credit expansion would be the correct measure. Moreover, the extension of credits requires, in this connection, the disposal of means for operation and credits for raw materials. All these are elements which make the development of credits (as seen from the standpoint of establishing programs of investments) of a necessary character to a certain extent.

The consumption of credits caused by the war, and the lack of an efficient capital market, shifted the center of gravity in financing (excluding investments out of public funds) necessarily to credit channels (see Monatsberichte for January 1952: "Die Wiener Börse im Jahre 1951"). Among the main sources of financing there are (excluding the liquid reserves of the credit institutions themselves) the increasing savings as well as those legal measures which support the techniques of financing (guarantees by the government in financing investment--Aufbaukredit and Absicherung von Exportkrisen, or protections against export crises) and, above all, the counterpart funds for potential refinancings at the Nationalbank. It is quite clear that these refinancings at the bank of money issuance (in Austria, the Nationalbank) can be only limited interim financing which must be consolidated in due time by consumption in the capital market. 652 452 [454]

If one considers the changes in the volume of total credits in the last year, one observes (on the basis of the report of the Board of Directors of

652 To evaluate these consequences, the changes
454 in the structure of production are of main interest.
433 According to the Austrian school of national economy, and according to the conception of competent representatives of this science in Sweden and in the Anglo-American area, the main consideration has to be given to changes in the relations between productive and consumptive utilization of capital. As in European countries other than Austria, the production indices of production goods industries increased at a higher scale than those of the consumer goods industries. This economic center of gravity becomes more clear by listing the release of the ERP funds for the total industry. Excluding public investments and means for covering special reconstruction problems, approximately 2 billion schillings out of a total of 2.6 billion schillings flowed into the production goods industry (power plant construction, coal and ore-mining, iron producing industries, etc.) and 607 million schillings into consumer goods industries (textiles, foodstuffs, paper). The distribution of these funds was aimed at affording Austria the opportunity to match the technical and industrial developments in the rest of the world, at least in the field of primary materials and semi-manufactures. The use of a big part of the credit volume, therefore, is fixed by the purposes of the official investment programs which are worked out by the Austrian government in consultation with economic circles and the ECA in Washington. Complementary credit demands (Betriebsmittelkredite) are tied to this credit as a consequence of the extension of capacity and the industries participating directly in these investments.

652 The agreement on qualitative and quanti-
453 tative credit measures reached between the Federal
452 Ministry of Finance and the joint stock banks in the spring of 1951 was followed by an additional agreement of October 10, 1951, paralleling the general international development. This later agreement allowed an increase in the total credit provided or promised by a bank, as of August 31, 1951, under certain conditions. [These are schilling credits in current amount, draft credits regardless whether the drafts remain in the portfolio of the bank or whether they are rediscountable moreover, mortgages and municipal loans (unless they already serve to cover issued mortgages and municipal obligations), as well as requirements against Austrian credit institutions which do not exceed a thirty-days' validity. Not included in the total are reconstruction credits, credits granted for financing exports and

433 434 investment rate as well as an increase of the general level of consumption was made possible by this extension of the gross national product.

In 1951, the gross national product (according to provisional calculations and estimations of the Oesterreichische Institut für Wirtschaftsforschung) increased by about 7 per cent in spite of production bottlenecks. This figure, however, is slightly lower than in 1950 (10 per cent), but still higher than could be expected in a normal economy. This increase was almost exclusively due to the industrial production which, owing to the 10 per cent rise in productivity, could produce 14 per cent more goods than in 1950. In this way reactions on the level of prices could be neutralized in some ways [457] through the greater quantity of goods. However, as the exchange conditions in Austrian foreign trade deteriorated by 10 per cent, and as the increase in prices on the world market lowered the real value of foreign aid by one-third, the Austrian economy in 1951 had only about 4 per cent more goods and services (i.e., about 2.3 billion schillings) for consumption and investments at its disposal than in 1950. Tourist traffic showed an increase of about 20 per cent more overnight guests in 1950-51 than in the preceding season, but the remaining sectors of economy, especially agriculture, showed only slight progress.

434 454 In the previous six years, especially since 1948, a far greater part of the gross national product was invested than before the war. In 1937 only about 6 per cent of the available gross national product was used for investments. The percentage increased from 17 per cent in 1948 to 20 per cent in 1950. As a comparison, the annual average in Great Britain is about 18 per cent. In 1951 the increase of the gross national product invested reached its highest extent, about 21 per cent. The greater part of these investments was carried out within the scope of the public budget or through special funds (for instance, reconstruction fund for dwelling units) and out of ERP funds. (In 1951 about 3.7 billion schillings flowed in from the purchase of ERP goods upon counterpart accounts). The high level of the investment rate, however, was only possible with foreign aid. It will be one of the main considerations of the Austrian economic policy to keep to or divert an adequately high rate after the end of the Marshall Plan. In this connection the adjustment between the investment rate and the monetary stability as well as the distribution of investments between

industries of production goods and consumer goods, will gain top importance. 434 454

During the Marshall Plan period preference was given to short-term investments within the scope of the Austrian Investment Program 1950-52. The aim was to ease the strain on the balance of payments, either by an increase of exports or by a decrease of the import demands, whether by direct or indirect means (for instance, by lower prices for semi-manufactures in industries which depend upon exports). The decisive factor for the selection of investments was the degree of contribution to the balancing of payments within the shortest time possible. This had to be coordinated with the requirements for big projects which had been started or were far advanced. In this way the projects could be completed in a technically and economically sound way. By finishing the started projects, especially in electric energy and in the iron and steel industry, Austria should be enabled to use its rich natural resources (water power, iron ore) as rationally as possible and better than was the case before. In view of the low capacity of the domestic capital market these projects had to be carried out, as far as possible, within the ERP period. In spite of the continuation of big industrial projects, the main tendency of the three-years' program (1950-52) is to give industries and crafts which need export outlets as well as the tourist traffic higher counterpart sums in the last two years than they received in 1948-49. It is self-evident for reasons of export and social policy that the investment plan tries to support, above all, small and medium-sized enterprises of the semi-manufactures category and the crafts. [457] 652 454 457

Development of the most important economic fields is on the average satisfactory. One has to consider, however, that the full results of investment projects, especially the big ones, will not show up until 1954-55. Most impressive has been the development of the iron producing industry. Thus, for instance, in 1950 about 15 times more raw iron and 5 times more raw steel and rolled products were produced than in 1946. The production of the iron producing industry surmounted that of the prewar level in 1945. Compared to 1937, by 1950 the production of raw iron was higher by 128 per cent, that of raw steel by 46 per cent, that of rolled products by 37 per cent, and that of pressed and wrought iron products by as much as 246 per cent. This development continued in 1951. Thus, the production of 433 327

439 deterioration of the exchange rate between imports
435 and exports (excluding the far larger import of investment goods). (The investments quota amounted to 6 per cent before the war and rose to 21 per cent of the gross national income in 1951. The comparatively high quota could be maintained, of course, only with the help of ERP funds.) These circumstances also caused difficulties in bigger and economically more powerful states because the real value of foreign aid suffered remarkably by these price developments since the middle of 1950.

439 Normalization of the trade balance must be
652 achieved in regard to both imports and exports. This
454 will be achieved through:

1) The increasing effect of the investments made within the scope of the Austrian Investment Program 1950-52 and by the revised investment policy. These are short-term investments which will be cheaper and more exportable by raising exports or, indirectly, by cheapening unfinished goods. Among these import saving investments only such investments shall be supported (excluding imports for agriculture) as will be justifiable within the scope of a liberalized foreign trade and in the framework of the international distribution of labor. In spite of the basic continuation of big industrial projects (in view of the end of ERP aid and counterpart funds it will not be possible to afford bigger amounts for big projects which will show their effect only after a long period because of financial and credit policy), the necessary shift in the center of gravity toward the typical export industries will remain a characteristic feature (the export industries are craft enterprises and the foreign tourist traffic, both of them real foreign currency earners). In this connection it should be remarked that part of the investments which have been carried out through public investment programs have not yet matured. Owing to the comparatively late start of real investments in Austria as compared to other ERP countries (1950), they will be fully effective only as late as 1954-55.

439 2) Exhausting all possibilities of the existing and future opportunities in the trade policy. Thus, for instance, the new German liberalization together with the new trade agreement opens the German export area to Austrian production so that, with an adequate support, a big part of the Austrian production capacity will be fully utilized. Also Belgium lowered the

C. Reconstruction Planning.

Reconstruction of the economic policy means 457
a gradual overcoming of the crisis of the balance of payments and the securing of internal and external balance. Such a policy will create conditions which can provide a free convertibility of currencies and the real integration of the single economies. (This is among the aims of the Marshall Plan.) (The EPU is of special value. Due to expire on June 30, 1952, it will be prolonged as an instrument of overcoming crises in the balance of payments which arose as a consequence of the Korean crisis in a number of countries. Without this aid the difficulties could not have been overcome so easily. At present the problem of the quotas, of the brake on money, and of establishing currency rates is an open one, since the current rates no longer correspond to purchasing power.) However, the aim of abolishing the restrictions on foreign currencies and the free convertibility of foreign currencies cannot be achieved within a short time. It will be necessary to establish manipulation funds which serve toward overcoming short-term shifts and creating certain structural correctives.

The maintenance of financial stability as 652
a means of guaranteeing the functioning of a currency is connected with the status of the governmental balance (excluding the calculation of costs in an economy). The frame of figures for the single items (titles, chapters) of the Finance Law (Budget) must be reduced if a surplus of expenditures arises which is not covered by taxes or other possibilities (at present counterpart funds); in this way a balance can be achieved between incomes and expenditures if the foundations of a stable currency are not to be shaken by the budget. If one tries to avoid these conditions, one has to set up a system of savings on the one hand, and to take measures for the reconstruction of a capital market of high capacity, on the other. Like other countries, Austria also will have to endeavor to [454]
transfer gradually a big part of its investment demands from bank credits or counterpart credits to the capital market. This development must be considered the soundest form of long-term financing. The neces- 652
sary revision of the investments policy caused by 457
reasons of the total economy has been dealt with in connection with the balancing of the balance of payments. (This is connected with the reduction of

457 foreign aid. While in 1951 about 200 million
652 dollars was available, this sum will be approxi-
mately 100 million dollars for 1952; the schilling
counter value to foreign aid, therefore, will de-
cline from 4.4 billion schillings to presumably 2.1
[435] billion schillings. Moreover, as the prices at the
end of 1951 were higher by 12 per cent than the
average for 1951, there will be about 2.7 billion
schillings less out of foreign aid funds for invest-
ments than in 1951.) In addition, the budget is
burdened by a number of price supports, the abolition
of which will not be possible to a full extent under
the present conditions. Immediate reactions on the
prices for foodstuffs and new rises in wages would
be the consequence. The policy of supporting prices
must not be omitted when the system of subsidies is
altered. [Since the fifth Wage and Price Agreement
of July 1951 the existing method of financing im-
portant consumption goods was taken over from counter-
part funds by the budget. Thus, there are still
considerable budgetary expenditures under this title.
They amount per year to about 40 million schillings
for the support of domestic bread-grain prices, 366.5
million schillings for foreign bread-grains, 555.75
million schillings for fodder, 110 million schillings
for fertilizers and 135 million schillings for raw
materials of fats needed by the margarine industry.
The term for supporting the prices of domestic bread
grains (15 groschen per kilo) already has expired.
The remaining subsidies will expire with the end of
June. Discussions with the aim of continuing these
subsidies are not yet finished. They tend, above all,
to stimulate production by adequate prices.]

652 Already in the preceding year the stabili-
[453] zation of the money value was prepared to a consider-
able extent. Measures of this type were: the intro-
duction of the quantitative and qualitative control
of credits; the increase of the bank rate from 3 1/2
[435] per cent to 5 per cent; and the lowering of prices,
started by private industry of its own volition--this
latter measure applying to about 80 categories of
goods. This materially and psychologically important
premise of an organic policy for stabilization must
be supplemented by an adequate budgetary policy. It
cannot be denied that the measures which were taken in
the preceding year had already brought about signifi-
● 454 cant results. The savings increased considerably in
652 the first two months of the present year; they rose
from 2,275.1 million schillings (checking account
deposits 8,898.7 million) to 2,619.5 million schillings

(checking account deposits:8,731.9 million schillings) from December 1951 until the end of February 1952. This development must not only be evaluated absolutely, but also as a positive symptom. 652 [454]

Single measures require careful coordination as they effect a number of economic laws (foreign trade law, raw materials allocation law, price control regulations, etc.) and also, in the final analysis, international developments. (The above mentioned laws will expire on June 30, 1952.) They laid the principles for various control measures.

The decisions taken by the OEEC (of which Austria is a member) resulted in a number of recommendations to the member states; the observance of these will be of essential importance for an eventual continuation of foreign aid to single countries. They not only provide for the extension of European production by 25 per cent in the next five years but stress especially the maintenance of "financial stability." This means an increase of productivity, the balancing of the dollar balances and the expanding of agricultural potentialities. How important the establishment of a financial balance is felt to be the carrying out of the total programs is best seen by the decision of the Committee of Ministers to examine the internal financial condition of the single countries by a special committee of experts. These periodic evaluations of the total conditions in the United States and in Canada as well as in the European countries are to form the basis for adjusting the common economic policy. It is expected that the American and Canadian governments will accept the decisions of this committee; thus, for the first time the OEEC extends its activities, which were up to now restricted to western Europe, to North America, thereby introducing a new era of international cooperation. 000

The Marshall Plan is about to end. We already can see the contours of the principles of a new economic cooperation. While the ERP was based mainly on grants (gratis aid deliveries) to give European production a start, there will be in this second stage a restricted convertibility of foreign currencies through the medium of the EPU. In its third stage, trade policy liberalization will be approached with the aim of a unified European market. Thus, in a fourth stage, the principle of an international credit standing will again be achieved in

READJUSTMENT AND CONSOLIDATION

UNEMPLOYMENT[1]

(000's omitted)

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	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1923	161	167	152	132	107	92	87	83	78	75	79	98
1924	119	125	106	82	68	63	66	74	77	89	113	154

454 ● 455

The situation was aggravated particularly by the shortage of capital for industry. An enormous speculative boom swept the stock exchange in 1923 and early in 1924. Industrial shares which had been neglected in the uncertain period of inflation were now eagerly taken up and funds were increasingly drawn into the financial sphere. Since private saving had fallen to negligible levels the rate of interest charged to industry was excessive. Interest rates on first-class overdrafts reached the absurdly high level of 22 per cent in 1924, and even in 1925 they still stood at 15½ per cent. The cost of credit was also raised by the monopolistic policy of the bank cartel which fixed the rates and left a margin of 7½ to 9½ per cent between rates paid and charged. As Austrian industry was largely owned and controlled by the banks, and also dependent on them for short-term credit, industrial interests were often subordinated to "orthodox" financial considerations.

457

Some relief was afforded by foreign loans. These were attracted by the high rates of interest and were usually obtainable on more favourable terms. The main drawback on this score was that—apart from loans to local authorities, public utilities and very big firms—it was only short-term credits which were offered, while what was needed at that time were long-term credits for industry. Indeed, once the monetary systems of the central and eastern European states were stabilized the *political* interest in their reconstruction ceased in the Western

1 [CP CATEGORY 1/6, PAGE 50 -- ANALYST]